


# Sharemarket Update

## U3A Manningham

February, 2020

*"The share market can seem mystical and almost like black magic; but with the right support and assistance, it just seems like magic."*  
**Robert Brain**



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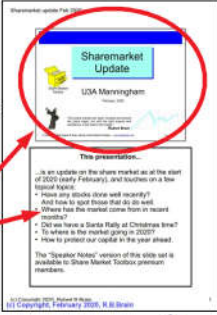


## Introduction

### Additional comments?

When Robert publishes presentation slides such as this set, there is usually a version of the slides available for Brainy's Share Market Toolbox (premium) members which includes additional explanatory comments — referred to as the "Speaker Notes".

Each page in the set has the slide on the top half of the printable A4 page and the **Speaker Notes** on the bottom half (as shown at right).



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## Introduction

### Today's agenda

1. Have any stocks done well recently?  
And how to spot them
2. Where has the share market come from?
3. Did we have a **Santa Rally**?  
(and: What is a *Santa Rally* anyway?)
4. To where is the market going in 2020?
5. How to protect capital and minimise losses.

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**Introduction**

### About... Robert Brain

**Nimble Short term Investor**  
consultant, educator and part-time\* share trader  
web-based sharemarket-support business

- Many years experience as trainer, presenter, conference facilitator (Scouts)
- Share Market – active 20+ years\* (slowly at first)
- Chartist ie. technical analyst (ATAA member and national director)
- Provide support and tuition to traders and investors **Brainy's Share Market Toolbox**
- Former Member Mensa
- Engineering Degree (structured thinking with an eye for charts and diagrams)
- 30+ years – professional experience (IT and management)
- **No AFS license!** (Can't give advice)
- **BullCharts software** (convener Australian BullCharts User Group and authorised reseller with special pricing)

\* - Not yet enough capital to live off the proceeds of trading (after trading as a hobby until a career change in 2008).

**Conflict of interest?**

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**Introduction**

### Important Notice — No Advice!

- This presentation does not include any advice.
- For proper advice, your personal financial situation needs to be considered.
- This presentation is pure education, only for your general awareness.
- There are no recommendations to take any action, or to invest any money in any way.
- Always consult a properly licensed advisor before making investment decisions.



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**Introduction**

### Important Notice



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**Introduction**

Quick questions may be possible

- Please ask questions.
- Let's discuss details.
- Any price charts prepared with BullCharts software.



**Every chart tells a story.  
It pays to understand the stories in the charts.**



[www.bullcharts.com.au](http://www.bullcharts.com.au)

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**Good performers**

# Have any stocks been performing?

But, how do you define "performing"?



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**Good performers**

## Marcus Padley...



**Bonds for income equities for growth**

**The Honest Broker**

**Let's see their price charts...**

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# Sharemarket update Feb 2020



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**Good performers**

**CAUTION! recap...**

On these slides:

1. Spotting a good share price performance is always easy in hindsight
2. These metrics are measured from trough to peak, and difficult to achieve in real life
3. The start and end dates for the measures are somewhat arbitrary
4. **What about the MANY losers?**

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 **Good performers**

### How to spot performers?

1. Watch the price charts
2. Look for uptrends
3. Avoid downtrends
4. Also look for: support and resistance levels.

**Price charts summarise the opinions of the real market participants. Every chart tells a story. It pays to understand the stories in the charts.**

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### Uptrends!!

A common thread in the previous examples is an **uptrend**.

If we can spot an **uptrend**, we can join the trend until it is over.

AND if we identify a **downtrend**, we should avoid the stock.

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### Important principles — **Trends**

1. Strict definition of a share price "uptrend":- series of **Higher Peaks and Higher Troughs**
2. Dow Theory says:  
*"a trend is a trend is a trend, until it is over"*
3. A **trend** (either up or down) is likely to continue until it is confirmed to have finished (due to investor psychology and the weight of opinions)
4. *"The trend is your friend"*.  
So we can "join the trend"

**Every chart tells a story. It pays to understand the stories in the charts.**

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Good performers

### Uptrends...

Now you can go back a few slides and re-visit the earlier price charts to see how easy it is to spot an uptrend, for the charts of: CSL, ALL, RMD, ASX, WOW and TWE

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Good performers

### What is *Trend Trading* and why do it?

1. Trend Trading — Finding shares that are in a confirmed *uptrend*, and joining the trend.
2. Why engage in “trend trading”?  
Because a *trend* is likely to continue
3. But why is this the case?  
**Because of the collective opinions of the market participants about the share price.**

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Here's one possibility...

### Trend Trading ASX shares

**EXAMPLE**

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### Support and Resistance

And don't forget  
the important notions of  
price **Support** and **Resistance**.

see more over...!

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**Good performers**

### Support and Resistance levels

Note the price swings  
between levels of  
Support and Resistance.

Why do they happen?  
It's the collective  
opinions of investors  
regarding the  
"inherent value"  
of the stock.

See the daily chart for more detail  
on the next slide...

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**Good performers**

### Why Trend Trade?

Another reason to think about Trend Trading ASX shares:

1. Many investors / traders actually do this without realising it.
2. It is one of the easiest strategy approaches to understand, and to follow.
3. There are text books that talk about this, and provide more information.

The book cover for 'Trend Trading' by Daryl Guppy is shown. The title 'TREND TRADING' is in large blue letters. Below it, the subtitle reads 'A seven step approach to success'. The author's name 'DARYL GUPPY' is at the top. The cover features a blue and orange color scheme with a small image of a person at a computer.

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**Good performers**

Don't forget...

## Protect capital with effective *Exit Strategy*

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But do we really need this?

1. Do we really need an Exit Strategy?
2. Or do we just hold?



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The investor mindset

1. Long term buy-and-hold is no longer effective.
2. Capital preservation is paramount.
3. A falling share price might devastate a portfolio.

*The opinions of the market participants are summarised in the price charts.*

*Every chart tells a story.*

*It pays to understand the stories in the charts.*

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**Where from? Santa Rally?**

**Where has the market come from?  
and  
Did we have a Santa Rally?**

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**Where from? Santa Rally?**

### Santa Rally?

Have we had a Santa Rally in recent weeks?

It depends on your definition:

- Yale Hirsch in 1972 clearly defined a Santa Rally for the S&P500 index over 7 specific trading days
- These days many people regard any market rally around December-ish to be a Santa Rally, aka Christmas Rally.

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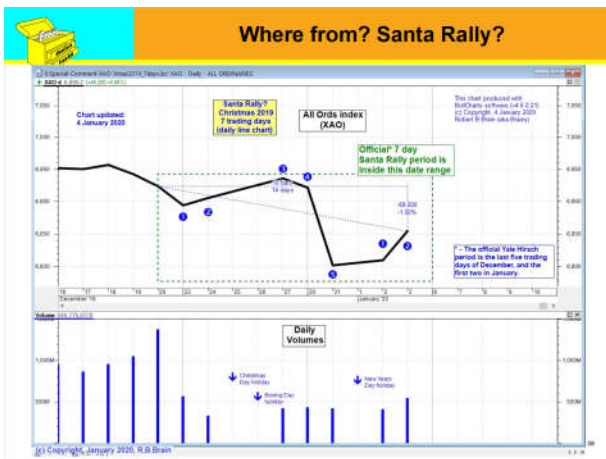
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Where to in 2020?

Where to in 2020?

I don't know!

Too many unknowns and possible *black swans*.  
Is anyone game enough to predict?



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 **Where to in 2020?**

### Where is the market going?

- It might depend on your own “belief system”
- Remember inter-market analysis (the impacts of markets around the globe)
- Do you believe that overseas markets might continue higher?
- What about the challenges of things like: coronavirus? the US Presidential election?

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 **Protecting capital**

## Risk and Money Management

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 **Protecting capital**

Protecting capital

**For some of us,  
preserving capital  
is paramount**

**Use a good *Exit Strategy*  
and also ...**

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 **Protecting capital**

### Stock universe

(a) Choose your *stock universe*\* carefully, by considering *stock liquidity*.

(b) To reduce some risks, consider aspects of *funda-technical analysis* eg. look for low debt/equity ratio (<50%) and consistent YoY returns on equity.

\* Stock universe — This is a collection of stocks on which you focus your attention. It might be: large-cap stocks, or small-cap stocks, or tech stocks, or healthcare stocks, or biotech stocks, etc., etc., or a combination of these.

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 **Protecting capital**

### Money management

- “Commit” no more than 10% of total capital to any one position.
- “Risk” no more than 2% of total capital on any one position (the “2 Percent Rule”).
- Optimise the *position size* using a *position sizing tool*.
- Don't close a position just because it has met a *price target*, or because it is making huge profits. (you can go broke taking profits)

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 **Protecting capital**

### Exit options

The various exit options generally fall into two categories:-

- Stop Loss price level
  - A specific dollar value, so when the price falls to this level, then sell without question.
  - Trailing Stop Loss — Adjust the Stop Loss upwards as the share price rises.
- Exit Strategy based on alternate criteria
  - See some possibilities on next slide.

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**Protecting capital**

### Exit options using T.A.

The good/bad news is there are many options to choose from: (with a quick glimpse on the following slides)

- Trailing Stop Loss — is ideal; but how?
- Weakening trend, or a complete trend failure
- Parabolic SAR
- Moving Average signals, or MA cross-over
- Volatility-based — eg. ATR, Chandelier, etc.
- Candlestick patterns

T.A. = Technical Analysis

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### Simple — Trailing Stop Loss under price Support levels

CBA Daily

CBA daily chart

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### Weakening uptrend, and failure

STO Daily SANTOS LIMITED

STO Daily

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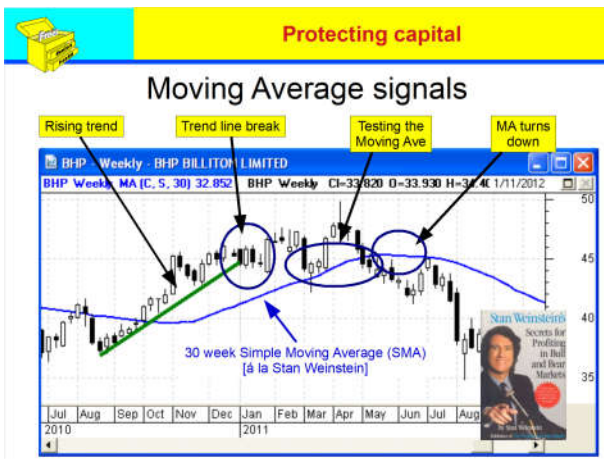
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**Protecting capital**

### Exit strategy options

- Like I said, there are many possibilities to choose from
- Choose wisely
- Find something that “gels” for you, and
- Test thoroughly.

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 **Protecting capital**

**Risk Management (v. important)**

- Have a good **exit strategy** in place
- Monitor positions periodically — at least weekly, and if an exit condition (or stop loss) is met, then action it according to the exit strategy.
- If an exit looks appropriate, then take it.

***The first loss is the best loss!***

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 **Liquidity**

**Watch out for  
stock liquidity  
(or lack of it)**

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 **Liquidity**

**Stock liquidity**

Only invest in "liquid" stocks

- We want to be able to buy, and sell, without influencing the share price.
- When it comes time to sell, we want to be able to **sell quickly** (ie. there needs to be buyers ready in the market)
- Check:
  - The daily turn over — volume, and value
  - The number of trades each day.

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 **Liquidity**

**Liquid stocks (not)**

Of the 2,000+ stocks on the ASX, only about 500 are liquid enough for many traders / investors.

So, be informed and choose wisely.

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 **Liquidity**

**Stock liquidity**

Imagine:

- You own some shares in a stock that trades five times each day (on average)
- Now you decide to sell it; but so do all the other interested parties
- So, sell orders flood in, but there are few if any interested buyers
- What happens to the share price?

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 **Liquidity**

**Stock liquidity**

Only invest in liquid stocks.  
Some guidelines:

- Daily volume or value is > 20 times the intended position size (ie. position size < 5% of daily value traded)
- eg. If daily value = \$100,000, then keep position size <  $\$100,000 / 20 = \$5,000$
- daily trades > "x" (perhaps 50).

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 **Emotions and Psychology**

**Very important**

Beware of the emotions and psychology:

- Fear, greed and hope
- Cognitive biases can lead to irrational actions
- Fear of missing out (FOMO)
- Over exuberance
- Frozen with fear or doubt
- Peer group pressure.
- Learn to manage the emotions  
(more details in my 2012 presentation — see it in my Toolbox)

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 **Summary & Wrap up**

**Summary**

1. Have any stocks done well recently?
2. Where has the share market come from?
3. Did we have a **Santa Rally**?  
(and: What is a *Santa Rally* anyway?)
4. To where is the market going in 2020?
5. How to protect capital and minimise losses.
  - Your stock universe;    Position size
  - Exit strategies;        Liquidity.

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 **Summary & Wrap up**

**Share market update**

**Every chart tells a story.  
It pays to understand the stories in the charts.**

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 **Summary & Wrap up**

### Next Steps?

- Good software – BullCharts  
[www.robertbrain.com/bullcharts/](http://www.robertbrain.com/bullcharts/)
- Someone to help you: [www.robertbrain.com](http://www.robertbrain.com)
  - individual tuition, support
  - assistance with set-up, getting started
  - weekly e-Newsletters
- My contact details:  
website above, or phone: 0438 355 910

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 **Summary & Wrap up**

### BTW

- I send occasional email to interested people
- My **Share Market Toolbox** web site:
  - Toolbox Members receive weekly email with (charts) analysis of our market
  - And there's lots more (stop loss, trends, etc...)
- Register for free and not miss out.
- Visit: [www.robertbrain.com](http://www.robertbrain.com)

  
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 **Summary & Wrap up**

### Don't forget my Toolbox

- Brainy's **Share Market Toolbox**
  - [www.robertbrain.com](http://www.robertbrain.com)
  - Loads of eBook (PDF) Articles
  - Info: share market, charting, BullCharts
  - Weekly Market Updates and Watch List
  - monthly e-Newsletters
- Good software – BullCharts  
[www.robertbrain.com/bullcharts/](http://www.robertbrain.com/bullcharts/)
- My contact details:  
web site above, or phone: 0438 355 910

  
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 **Summary & Wrap up**

**ATAA — networking, etc.**  
For totally unbiased and broad support:

 Australian  
Technical Analysts  
Association

- Nine locations around Australia
- Monthly meetings
- Lots of resources — [www.ataa.asn.au](http://www.ataa.asn.au)

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 **Summary & Wrap up**

**THE END — Thank you**

See free stuff here: [www.robertbrain.com/free](http://www.robertbrain.com/free)

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for Share Market Toolbox members in  
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